

**CONFIDENTIAL****OGC HAS REVIEWED.**

MEMORANDUM FOR THE RECORD

18 July 1951

SUBJECT: Conference with Army on Profit Margins

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1. [REDACTED] and I conferred today with Mr. Edward C. Cox of the Army Signal Corps regarding profit margins being asked by [REDACTED] in fixed-price contracts with the Government.

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2. Mr. Cox stated that the Signal Corps has recently entered into a number of fixed-price production contracts with [REDACTED] in which a profit margin of  $11\frac{1}{2}\%$  of cost has been allowed. These contracts incorporate the Army's Form II-B price redetermination clause. Mr. Cox had knowledge of five such contracts involving a total sum of approximately \$31,000,000. He referred to one contract at random in which a profit of  $11\frac{1}{2}\%$  was allowed, with an upward revision ceiling of 21%. The delivery schedule on this contract extended over a period of  $1\frac{1}{2}$  years. The contract was in the sum of approximately \$13,000,000 and was executed in June 1951.

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3. The Signal Corps resisted granting such favorable conditions to [REDACTED] and conducted active negotiations with top management personnel of the Company in an effort to gain a reduction of the profit margin, but without avail. Hence, because of the Army's urgent need for the equipment, the contracts were executed, after clearance with the Chief, Current Procurement Branch.

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4. Mr. Cox expressed the opinion that [REDACTED] is about booked up to capacity and that, the precedent having been set by the Signal Corps on orders of such substantial amounts, there is little probability that CIA will be able to obtain more favorable terms from [REDACTED] at this time. He confirmed that  $11\frac{1}{2}\%$  is a larger profit margin than has been allowed [REDACTED] in the past and is more than is normally granted to other producers of similar equipment.

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5. [REDACTED] verified that the overhead rates quoted by [REDACTED] are the same as those in use by [REDACTED] with the Signal Corps.

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cc: [REDACTED]

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